# Asset Liability Management (ALM)

The ALM is an integrated review of our assets and liabilities to inform decisions designed to achieve a sound and sustainable fund. It is an innovative and transparent approach to guide the Board in sound decision making.



Currently reviewed every three years per Board policy

## Actuarial Assumptions

(Economic and Demographic Assumptions, and Review of Current Discount Rate)

Currently reviewed every four years per Board policy

## **Sustainable Funding**

- Fiduciary duty
- Constitutional authority
- Statutory requirement
- Professional standards

# **ALM Review Cycles**

#### **Asset Allocation (including expected investment return)**

This process includes a review of the current Asset Allocation and the role each asset class plays within the portfolio. It looks at risk tolerances for each asset class and most importantly, provides Capital Market Assumptions (CMA). CMAs reflect the expectations of what the financial markets will deliver over time.

Asset Allocations were reviewed in 2010, 2007 and 2004.

#### **Actuarial Assumptions (including Discount Rate)**

Economic Assumptions include the Discount Rate, and wage and price inflation projections; Demographic Assumptions include retirement, employment and mortality rate projections. The Discount Rate is the long term interest rate used to fund future pension benefits.

Economic Assumptions were reviewed in 2012 and 2004.

Demographic Assumptions were reviewed in 2010 and 2004.

#### **Discount Rate**

The Discount Rate is always reviewed as part of the Economic Assumption review and after the Asset Allocation review (five times in the last nine years under past review practices).

The Discount Rate was reviewed in:

2012	as part of the Economic Assumption review of 2012	(Discount Rate changed from 7.75 to 7.5%)
2011	after the Asset Allocation review of 2010	
2008	after the Asset Allocation review of 2007	
2005	after the Asset Allocation review of 2004	
2004	as part of the Economic Assumption review of 2004	(Discount Rate changed from 8.25 to 7.75%)

# Asset Liability Management (ALM)

November 7, 2013



## CalPERS Path to a Sound and Sustainable Fund

### Actions to strengthen integrity, will likely increase contributions

As stewards of the System, CalPERS must ensure that the pension fund is sustainable over multiple generations. Our strategic plan calls for us to take an integrated view of our assets and liabilities and to take steps designed to achieve a fully funded plan. (Note: timeline is subject to change.)

Read supporting material at www.calpers.ca.gov/alm

**Historical Decisions Future Reviews and Decisions** 

#### **March 2012 Discount Rate**

- CalPERS sets discount rate at 7.5 percent, lowering the rate from 7.75 percent.
- Discount rate is calculated based on expected price inflation and real rate of return.
- Reflects CalPERS expectations of what the financial markets will deliver over time.
- Investment beliefs Stakeholder panel.

#### April 2013 - New **Actuarial Policies**

- CalPERS adopts new actuarial policies aimed at returning the pension fund to fully-funded status in 30 years.
- New policy changes rate-smoothing method with a 30-year fixed amortization period for gains and losses.
- Begins FY 2015-16 for our employers to plan and has five-year rampup period.
- Investment beliefs workshop.

#### May 2013

- CalPERS holds workshop (May) on the risks and returns of its asset classes and discusses advantages and disadvantages of investments in alternative asset
- Also reviews its capital market assumptions.

classes.

 CalPERS begins a review that could lead to changes to its economic and demographic\* assumptions (including the discount rate).

#### June 17, 2013

 Final recommendations and action on capital market assumptions.

### July 15, 2013

investment beliefs, CalPERS views on the capital markets and investor behavior that will guide its investment strategy and decisions.

• Final workshop on

#### **September 16, 2013**

 Final recommendations and action on investment beliefs.

#### October 15, 2013

- Review of mortality rate projections.
- factors in CalPERS asset allocation and its impacts on employer contributions and funding of the system.

November 12-13, 2013

liability management

Workshop on asset

that considers risk

 Review will lead to the preferred asset allocation mix for CalPERS investment portfolio.

 Final recommendation and action on CalPERS asset allocation that will influence future discount rates.

**December 16, 2013** 

Preliminary recommendations for changes to its economic and demographic\* assumptions (including the discount rate).

#### February 2014

 Final recommendations and action on changes to its economic and demographic\* assumptions (including the discount rate).

<sup>\*</sup>Examples of demographic assumptions include retirement rates, employment trends, disability rates, salary rate projections, and mortality rate projections.